Management Discussion and Analysis of Financial Position and Operating Results

This Management Discussion and Analysis of Financial Position and Operating Results ("MD&A") is intended to provide an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2009 and December 31, 2009. It also compares the operating results and cash flows for the three- and nine-month periods ended December 31, 2009 to those for the same periods in the previous year. It should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2009 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the unaudited interim consolidated financial statements to June 30, 2009, September 30, 2009 and December 31, 2009. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Company's actual performance to differ materially from those expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of general economic conditions particularly in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2009. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to the Company on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

Héroux-Devtek designs, develops, manufactures and repairs systems and components for two main market segments: Aerospace and Industrial. The Aerospace segment comprises the following:

- landing gear products;
- aerostructure products;
- other aerospace products.

The Company's Aerospace segment serves the military as well as the commercial sectors.

The Industrial segment includes:

- industrial gas turbine products;
- other industrial products, including products for the wind energy and heavy equipment markets.

For the quarter and nine months ended December 31, 2009, the Company's commercial sales in the Aerospace and Industrial segments have been negatively impacted by the continued difficult worldwide economic situation. As we have seen in previous quarters, the military market remained robust and helped offset some of these negative variances. The impact of the worldwide financial turmoil and economic situation is discussed later in this MD&A (see under Impact of the International Financial Crisis and Economic Situation).

RESULTS OF OPERATIONS

Currency rates

The table below shows exchange rates applicable to the quarters and nine months ended December 31, 2009 and 2008. Average rates are used to translate sales (but exclusive of forward foreign exchange sales contracts) and expenses for the periods mentioned, while closing rates translate assets and liabilities of self-sustaining foreign operations and monetary assets and liabilities of the Canadian operations.

	Quarter ended December 31		Nine months ended December 31	
	2009	2008	2009	2008
Average	1,0563	1,2125	1,1070	1,0881
Closing rates to December 31, 2009/March 31, 2009			1,0510	1,2613

As shown above, the value of the Canadian dollar when compared to its US counterpart, quarter over quarter, increased by more than 12% and, naturally, added pressure on the US denominated results of the Company, including those from its Canadian operations. For the comparable nine-month periods, since the rates are almost similar, they did not impact the Company's results as severely. Finally, the closing rate declined sharply since March 31, 2009, from 1.2613 to 1.0510 as at December 31, 2009, reducing effectively the currency impact on the Company's US denominated balance sheet accounts at the end of the third quarter. Currency fluctuation impact on the Company's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

However, the Company enters into forward foreign exchange sales contracts for the purpose of mitigating the risk of currency fluctuations mainly related to its export sales. See Gross Profit and, Off-Balance Sheet Items and Commitment sections below.

Consolidated Sales

Overall, the Company's sales declined when compared with last year. As already mentioned, the worldwide economic situation had a continued impact this quarter on the commercial market of the Company. Recent aerospace programs won by the Company, such as the Learjet 85 and Embraer Legacy series will not affect the Company's sales top line until two to three years from now. On the other hand, the Company's investment for the Joint Strike Fighter (JSF) program is starting to pay dividends as planes are now well into the low rate initial production phase.

Segment	Quarters ended December 31				Nine months ended December 31			
	2009	2008	Variance		2009	2008	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Aerospace	72,607	75,047	(2,440)	(3.3)	218,707	217,167	1,540	0.7
Industrial	4,052	10,531	(6,479)	(61.5)	16,682	28,322	(11,640)	(41.1)
Total	**76,659**	**85,578**	**(8,919)**	**(10.4)**	**235,389**	**245,489**	**(10,100)**	**(4.1)**

Consolidated sales for the quarter ended December 31, 2009 decreased by 10.4% to $76.7 million from $85.6 million for the same period last year, the decline coming mainly, as explained below, from the Industrial segment and currency impact.

Aerospace sales now stand at $72.6 million for the quarter ended December 31, 2009, 3.3% lower than the $75.0 million for the same period last year. Excluding the currency impact, as explained below, sales for this segment were slightly higher when compared with last year. Industrial sales are yet again lagging with a further decline for the third quarter to stand at $4.1 million.

The strengthening of the Canadian dollar relative to the US dollar had a negative impact of $3.4 million or 4.0% on the third quarter overall sales this year, when compared to last year's third quarter.

To date, consolidated sales totaled $235.4 million or 4.1% lower than last year's sales of $245.5 million. Aerospace sales compared favourably with last year and now stand at $218.7 million compared to $217.2 million last year for a $1.5 million or 0.7% increase. Industrial sales are $11.6 million lower than the $28.3 million from last year to stand at $16.7 million. For the nine months ended December 31, 2009, the Canadian dollar when compared to its US counterpart had a $6.8 million or 2.8% favourable impact on sales when compared to the same period last year.

Aerospace Segment:

Sales for the Aerospace segment, shown in the table above, can be broken down by product as follows:

Product	Quarters ended December 31				Nine months ended December 31			
	2009	2008	Variance		2009	2008	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Landing Gear	48,227	44,986	3,241	7.2	143,720	136,002	7,718	5.7
Aerostructure	24,036	29,763	(5,727)	(19.2)	74,121	80,201	(6,080)	(7.6)
Other aerospace products	344	298	46	15.4	866	964	(98)	(10.2)
Total Aerospace	**72,607**	**75,047**	**(2,440)**	(3.3)	**218,707**	**217,167**	**1,540**	0.7

During the third quarter, landing gear product sales increased by $3.2 million or 7.2% to $48.2 million relative to the same period last year. This resulted mainly from additional USAF military sales, mainly from the B-52, C-5 and F-16 programs. Increase in repair and overhaul for military helicopter and P-3 programs also marginally impacted sales. Landing gear product sales benefited from new business on the A320 program. However, these were partially offset by decelerations of production schedules experienced since the beginning of this current fiscal year, mainly in the commercial business jet and helicopter product sales.

Third quarter aerostructure product sales declined when compared to last year from $29.8 million to $24.0 million, a decrease of 19.2%. Additional sales coming from the Joint Strike Fighter (JSF) F-35 ramped-up program were more than offset by reduced aftermarket sales (F-16 program) and by reduced commercial business jet product sales. The Canadian dollar fluctuations relative to the US dollar in the third quarter this year also had a negative impact on aerostructure product sales, compared to the same period last year.

Year-to-date, landing gear products led the way with sales of $143.7 million, $7.7 million or 5.7% higher than last year. The increase, comes from higher military manufacturing aftermarket sales, the increase in military repair and overhaul sales and from the favourable impact of the lower Canadian dollar compared to the US currency. Landing gear sales also benefited from new business on the A320 program. These were somewhat offset by lower business jet and commercial helicopter product sales.

Aerostructure product sales of $74.1 million to December 31, 2009 are 7.6% lower than for the same period a year ago. As explained below, the JSF new work was more than offset by the reduction of F-16 military aftermarket sales and lower business jet and commercial helicopter product sales.

Sales for the Aerospace segment, shown in the table above, can be broken down by sector as follows:

Sector	Quarters ended December 31				Nine months ended December 31			
	2009	2008	Variance		2009	2008	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Military *(1)*	43,944	42,031	1,913	4.6	135,634	113,285	22,349	19.7
Commercial	28,663	33,016	(4,353)	(13.2)	83,073	103,882	(20,809)	(20.0)
Total Aerospace	**72,607**	**75,047**	**(2,440)**	**(3.3)**	**218,707**	**217,167**	**1,540**	**0.7**

(1): Includes military sales to civil customers and government.

During the third quarter, military sales remained robust with deliveries of additional manufacturing US Air Force (USAF) aftermarket sales, while the increase in military repair and overhaul sales also favourably impacted sales. The JSF program is still ramping-up, although it has been announced that this ramp-up will occur at a slightly more moderate pace over the near term. This increase in sales was partially offset by the negative aspect in military sales coming from reduced aerostructure aftermarket sales, more specifically on the F-16 program. For the quarter ended December 31, 2009, military sales stood at $43.9 million, $1.9 million or 4.6% higher than the same period last year, in spite of the strengthening of the Canadian dollar.

Commercial sales, for the third quarter this year, stood at $28.7 million, $4.4 million or 13.2% lower than the $33.0 million from last year's third quarter. This ongoing decline is mainly attributable to the deceleration of production schedules for the business jet and commercial helicopter markets which were partially offset by increased sales on the A320 program for which the Company started deliveries this year.

For the nine-months ended December 31, 2009, military sales of $135.6 million were $22.3 million or 19.7% higher than the $113.3 million sales for the same period last year. Commercial sales, on the other hand, decreased from $103.9 million to $83.1 million or 20.0% for the same nine-month period. These variations are essentially attributable to the same reasons mentioned above.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended December 31				Nine months ended December 31			
	2009	2008	Variance		2009	2008	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Gas Turbine	2,266	4,077	(1,811)	(44.4)	9,385	12,919	(3,534)	(27.4)
Other Industrial	1,786	6,454	(4,668)	(72.3)	7,297	15,403	(8,106)	(52.6)
Total	**4,052**	**10,531**	**(6,479)**	**(61.5)**	**16,682**	**28,322**	**(11,640)**	**(41.1)**

Third quarter sales for the Industrial segment totalled $4.1 million this year, compared to $10.5 million last year. Due to market conditions prevailing in this segment since the beginning of the year, overall industrial sales were negatively impacted in gas turbine, wind energy and heavy equipment sales. We believe that the sales in the Industrial

segment have bottomed out and we are anticipating a favourable increase in the current quarter.

Year-to-date, the Industrial segment sales of $16.7 million compares to $28.3 million for the first nine months of last year, the decrease being explained by the reasons mentioned above.

Sales by Destination

The Company's sales by destination were as follows:

Destination	**Quarters ended December 31**		**Nine months ended December 31**	
	2009	**2008**	**2009**	**2008**
Canada	35%	32%	31%	33%
US	62%	67%	67%	66%
International	3%	1%	2%	1%
	100%	**100%**	**100%**	**100%**

The third quarter changes in the sales-by-destination mix reflect the impact from the increase in landing gear product sales offset by the reduction in sales from our aerostructure product and Industrial sales.

Gross Profit

The reduced volumes in the commercial market and the strengthening of the Canadian dollar, as explained above, negatively impacted the Company's gross profit margin, for the quarter. In light of these challenges, the Company launched a cost reduction program earlier this year, a program that enabled the Aerospace and Industrial segments to negate some of the unfavourable sales trend.

For the quarter ended December 31, 2009, consolidated gross profit as a percentage of sales was 15.5%, down 0.3% from 15.8% last year.

In the third quarter of this year, gross profit was negatively impacted by the decelerations of production schedules and push-outs in the commercial business, particularly for aerostructure products. In addition, last year's third quarter gross profit for the aerostructure products was impacted by a more favourable sales mix. The market conditions in the Industrial segment discussed earlier also had a negative impact on the third quarter gross profit margin but not to the same extent, given the successful cost reduction program put forward in the Industrial segment. A similar cost reduction program was also beneficial for the landing gear products, which actually posted a higher gross profit margin than last year for the quarter. In addition to this program, the Aerospace segment also benefited from the overall landing gear sales increase and higher production efficiency during the quarter.

Year-to-date, the consolidated gross profit margin stood at 15.7% compared to 16.7% for the nine months ended December 31, 2008. As discussed above, the reduced commercial Aerospace business and unfavourable sales mix and the reduced Industrial sales were not completely compensated by the increased sales and improved

throughput of landing gear products, when compared to the corresponding period last year.

For the quarter ended December 31, 2009, the Canadian dollar fluctuations relative to the US dollar had a negative impact of 1.8% on the gross profit margin, expressed as a percentage of sales, compared to the same period last year. For the first nine months this year, the negative impact due to the currency fluctuations was 1.0% expressed as a percentage of sales. This negative impact on the year-to-date gross profit margin this year includes the impact coming from the raw material purchased in USD over the last twelve months, when the Canadian dollar was weaker, in spite of the Company's hedging policy to mitigate the currency fluctuation risks.

Besides the natural hedging from the purchase of materials made in US dollars, the Company uses forward foreign exchange sales contracts to mitigate the risks related to Canadian currency fluctuations against the US currency and its impact on the Company's gross profit. As highlighted in the Risks and Uncertainties section (below), it is also worth mentioning that the Company mitigates the risk of potential raw material shortages or cost increases by contracting long-term agreements with certain raw material suppliers. In the past year, the situation in the raw material market has stabilized, reducing the risks mentioned above in the short-term

Selling and Administrative Expenses

Third quarter and year-to-date selling and administrative expenses were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2009	**2008**	**2009**	**2008**
Selling and administrative expenses ($'000)	**5,822**	**5,703**	**17,066**	**16,526**
% of sales	**7.6**	**6.7**	**7.3**	**6.7**

Selling and administrative expenses were respectively $5.8 million and $17.1 million for the quarter and nine months ended December 31, 2009. For the quarter, selling and administrative expenses include the loss on currency translation on net monetary items of $0.2 million which compares to a $0.4 million loss last year.

Year-to-date, the selling and administrative expenses include the loss on currency translation on net monetary items of $1.2 million for the first nine months ended December 31, 2009, compared to a loss of $0.9 million for the same period last year. These expenses are shown net of a non-recurring gain of $350,000 recorded in the second quarter of this fiscal year.

Operating Income

Consolidated operating income stood at $6.1 million or 7.9% of consolidated sales for the quarter ended December 31, 2009, and was $1.8 million lower than the $7.8 million or 9.2% operating income for the same period last year. Year-to-date, operating income was $19.9 million or 8.4% of consolidated sales compared to $24.4 million or 10% for the same period last year.

Aerospace Segment

Aerospace operating income was $6.1 million or 8.4% of sales in the third quarter this year, compared to $6.3 million or 8.4% of sales for the comparative quarter last year. The operating income this year mainly reflects improved landing gear product throughput and sales, somewhat attenuated by reduced aerostructure commercial product sales and a less favourable aerostructure sales mix.

For the nine months ended December 31, 2009, the Aerospace segment operating income stood at $18.4 million or 8.4% of sales compared to $20.0 million or 9.2% last year, for the same reasons explained above.

Industrial Segment

The operating income essentially broke even for the third quarter of this year and compares to $1.6 million or 14.8% of sales for the same period last year. It reflects the negative impact from market conditions on overall reduced Industrial sales and its impact on the related gross profit margin explained above. Year-to-date, the operating income of $1.5 million or 9.0% compares to $4.5 million or 15.8% for the nine months ended December 31, 2008 for the same reason.

Financial Expenses

Financial expenses for the quarter stood at $1.2 million while it stood at $3.5 million for the nine months ended December 31, 2009. This compares to financial expenses of $1.1 million and $3.2 million, respectively, for the corresponding period last year. The increase in financial expenses this year reflects the impact from the favourable interest rate on debt for the quarter and year-to-date, in spite of a higher average debt level this year. This favourable impact was partially offset by lower interest revenues, when compared to the corresponding periods last year.

Income Tax Expense

The Company had an income tax expense of $1.3 million for the quarter ended December 31, 2009, compared to an expense of $1.6 million last year. Year-to-date, the Company posted an income tax expense of $4.8 million compared to an expense of $6.3 million for the same period a year before.

The Company’s effective income tax rate for the nine months ended December 31, 2009 was 29.2% compared to its Canadian blended statutory rate of 30.1%. The difference can be explained by the favourable impact on the Company’s effective income tax rate coming from permanent differences ($0.5 million) all but offset by the negative impact of a higher US income tax rate for the Company’s US subsidiaries.

For the nine months ended December 31, 2008, the effective income tax rate was 29.7% compared to a Canadian blended statutory rate of 31.0%. The difference can be explained by higher income from the Company’s self-sustaining US subsidiaries with a higher income tax rate, more than offset by the impact of favourable future tax adjustments ($0.3 million), and the impact of permanent differences ($0.5 million).

Net Income

	Quarters ended December 31		Nine months ended December 31	
	2009	**2008**	**2009**	**2008**
Net income ($'000)	**3,538**	**5,178**	**11,598**	**14,932**
Earnings per share – basic & diluted ($)	**0.12**	**0.16**	**0.38**	**0.47**

The Company posted net income of $3.5 million for the third quarter ended December 31, 2009, compared to net income of $5.2 million for the corresponding quarter last year. This reduction in net income reflects essentially the decrease in sales and also the different sales mix impacting the aerostructure product line and Industrial segment, as explained above. These negative impacts were not completely offset by the improved results for the quarter by the landing gear product line. Year-to-date, and for the same reasons as explained above, net income stood at $11.6 million compared to $14.9 million last year.

Earnings per share figures are based on year-to-date weighted-averages of 30,714,152 common shares outstanding for the nine months of this year and 31,647,603 for the same period last year. The decrease in the number of shares, on a year-to-date basis this year, is essentially due to the 1,255,700 common shares redeemed under the normal course issuer bids, launched by the Company in November 2008 and renewed for another year on November 23, 2009, less the issuance of common shares, including 57,331 common shares during the nine months ended December 31, 2009, under the Company's stock purchase and ownership incentive plan (see Note 12 to the Interim Consolidated Financial Statements).

On February 4, 2010, the date of this MD&A, the Company had 30,485,014 common shares outstanding. Since most of the outstanding options are not in the money, the basic and diluted earnings per share, both for the corresponding quarters and year-to-date, are the same (see "Stock Option Plan" section below).

LIQUIDITY AND CAPITAL RESOURCES

In general terms, the Company has a healthy financial position and is well positioned to face its financing needs. The Company has Senior Secured Syndicated Revolving Credit Facilities (Credit Facilities) extended by a syndicate of four Canadian Banks. These Credit Facilities can extend up to $125 million, either in Canadian or US currency equivalent. To December 31, 2009, only CAD $45.2 million had been drawn through these Credit Facilities. These Credit Facilities will mature in October 2011. Considering the Company cash and cash equivalent position of $30.2 million to December 31, 2009, its available Credit facilities and level of expected capital investments, it does not expect any liquidity risk in the foreseeable future.

Operating Activities

The Company generated cash flows from operations and had cash flows relating to its operating activities as follows:

	Quarters ended December 31		Nine months ended December 31	
	2009 ($'000)	**2008 ($'000)**	**2009 ($'000)**	**2008 ($'000)**
Cash flows from operations	10,129	11,709	33,617	33,986
Net change in non-cash working capital items related to operations	2,455	4,204	(22,625)	(1,369)
Cash flows relating to operating activities	**12,584**	**15,913**	**10,992**	**32,617**

For the third quarter ended December 31, 2009, cash flows from operations were $10.1 million, $1.6 million lower than for the same period last year and can be explained by the lower net income ($1.6 million) essentially offset by the higher amortization expense ($0.4 million) and future income taxes ($0.3 million). The net change of $2.5 million in non-cash working capital items during the quarter can be mainly explained as follows:

	Net Change ($ millions)
• Receipt of customers advances for aerospace long-term contracts.	3.5
• Inventory decrease mainly due to reduced commercial Aerospace segment sales.	2.7
• Decrease in accounts payable and accrued liabilities due to inventory decrease and reduction in number of days in accounts payable.	(4.6)
• All other - net	0.9
	2.5

The net change of $4.2 million in non-cash items for the quarter ended December 31, 2008, was significantly impacted by deterioration of the Canadian currency against its US counterpart, and could be explained by a $24.2 million increase in accounts payable and accrued liabilities and other liabilities arising from the variation in the Company's balance sheet of short-term derivative financial instruments measured at fair value and the increase in business activity. This variance was partially offset by a $7.0 million increase in accounts receivable, also in line with the increased business activity, and a $14.0 million negative impact of the translation of US-denominated non-cash balance sheet items (see Consolidated Balance Sheet section below and Note 14 to the Interim Consolidated Financial Statements).

For the nine months ended December 31, 2009, the $22.6 million outflow of non-cash working capital items can be explained as follows:

	Net Change ($ millions)
• Reduction in accounts payable and accrued liabilities since last fiscal year-end for the same reasons explained above for the third quarter, and the impact of the conversion, at lower currency rate, of US accounts payable and accrued liabilities of the Company's Canadian operations.	(24.1)
• Impact of changes in the exchange rate on non-cash items for the Company's U.S. self-sustaining operations.	(5.4)
• Reduction of accounts receivable in line with reduced sales volume and reduction in the number of days outstanding in receivables due to improved accounts receivable collection.	9.2
• Increase in income tax receivable due to tax credits mainly related to development cost investments.	(3.9)
• All other – net	1.6
	(22.6)

The net change of $1.4 million in non-cash items for the nine months ended December 31, 2008, could be explained by higher accounts receivable ($5.9 million), in line with the increased business activity, higher inventories ($8.4 million) before the inventory adjustment following the implementation last year of new accounting guidelines, and the negative impact of the translation of US-denominated non-cash balance sheet items ($13.1 million). These outflows were offset by a $22.3 million increase in accounts payable and accrued liabilities and other liabilities, for the reasons mentioned above. (See Note 14 to the Interim Consolidated Financial Statements).

Investing Activities

The Company's investing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2009 ($'000)	**2008 ($'000)**	**2009 ($'000)**	**2008 ($'000)**
Additions to property, plant and equipment	(2,034)	(10,414)	(7,234)	(20,430)
Net increase in finite-life intangible assets	(808)	(192)	(2,186)	(1,710)
Proceeds on disposal of property, plant and equipment	15	-	24	-
Cash flows relating to investing activities	**(2,827)**	**(10,606)**	**(9,396)**	**(22,140)**

Third quarter additions to property, plant and equipment totalled $2.0 million this year, compared to $10.4 million last year. Year-to-date, $7.2 million was invested in capital expenditures, net of $7.6 million of investments which were financed through capital leases, compared to $20.4 million for the corresponding period last year. Capital expenditures of close to $20 million, including those acquired through capital leases, are still planned for the current fiscal year, mostly for normal maintenance projects and also for certain investments related to the JSF program in our Texas facilities.

In the third quarter this year, the $0.8 million net increase in finite-life intangible assets represents mainly the increase in capitalized development costs for Aerospace segment long-term contracts compared to $0.2 million last year. The year-to-date increases of $2.2 million and $1.7 million, for the corresponding period last year, are essentially for the same reasons.

Financing Activities

The Company's financing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2009 ($'000)	**2008 ($'000)**	**2009 ($'000)**	**2008 ($'000)**
Increase in long-term debt	856	-	6,519	2,106
Repayment of long-term debt	(5,645)	(5,389)	(8,644)	(7,542)
Repurchase of common shares	(387)	(717)	(3,266)	(717)
Issuance of common shares	81	81	240	242
Other	-	(89)	-	(274)
Cash flows relating to financing activities	**(5,095)**	**(6,114)**	**(5,151)**	**(6,185)**

During the third quarter ended December 31, 2009, the increase in long-term debt reflects a new non-interest bearing loan to support the Company's development costs for new Aerospace segment programs.

During the quarter, the Company also repaid $5.0 million of its Canadian Credit Facilities. Furthermore, the Company repurchased, in the same quarter, 75,300 common shares under its normal course issuer bids (see Normal Course Issuer Bids below) at an average price of $5.12 (see Note 12 to the Interim Consolidated Financial Statements).

Year-to-date, the increase in long-term debt includes $5.0 million drawn against the Company's Canadian Credit Facilities and $1.3 million of non-interest bearing loan to support new Aerospace segment programs (see Consolidated Balance Sheets section below). During the first nine-month period this year, the Company also repurchased 721,700 common shares under its Normal Course Issuer Bids (1,255,700 common shares since the beginning of the plans in November 2008 and November 2009) at an average price of $4.52 per share ($4.27 since the beginning of the plan) and issued 57,331 common shares under the Company's stock purchase and ownership incentive plan at a weighted average price of $4.16 per share (see Note 12 to the Interim Consolidated Financial Statements).

Normal Course Issuer Bids

In November 2008, the Company announced that it was launching a normal course issuer bid (NCIB) in which the Company could acquire up to 1,500,000 of its common shares until November 23, 2009. Since the beginning of this program, the Company repurchased 1,202,200 common shares at an average net price of $4.23 per share.

On November 23, 2009, the Company announced that it implemented a new NCIB, with the approval of the Toronto Stock Exchange (TSX). Under the terms of the NCIB, the Company may acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Company as of November 19, 2009. The repurchase of common shares commenced on November 25, 2009, and will end on November 24, 2010. All common share purchases by the Company are made on the open market through the facilities of the TSX or other Canadian marketplaces in accordance with the policies of the TSX, and are surrendered by the Company to its transfer agent for cancellation.

To December 31, 2009, and following the renewal of its NCIB, the Company had repurchased an additional 53,500 common shares for a total of $274,826. (See Note 12 to the Interim Consolidated Financial Statements).

Stock Option Plan

The Company has a stock option plan whereby options to purchase common shares are issued to officers and key employees. At December 31, 2009, the Company had 1,555,221 outstanding stock options at a weighted-average exercise price of $5.83 that will expire over the next six years.

During the quarter ended December 31, 2009, no stock options were granted nor cancelled. For the nine months ended December 31, 2009, 246,000 stock options were granted, all in the second quarter, at an exercise price of $4.56 while 75,000 options were cancelled this year (all in the first quarter) compared to 65,000 options cancelled during the first quarter last year, having reached their expiry dates.

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 133,718 had not yet been granted at December 31, 2009. The Company also has a stock purchase and ownership incentive plan for management employees, and a stock appreciation rights plan for its non-employee directors (See Note 12 to the interim consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes to the consolidated balance sheets between March 31, 2009 and December 31, 2009:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	(9.6)	See consolidated statements of cash flows.
Accounts receivable	(9.2)	In line with the reduced sales volume and number of days outstanding in receivables. This reduction also includes the impact of the strengthening of the Canadian dollar since March 31, 2009, on US denominated accounts receivable ($1.9 million).
Income tax receivable	(3.9)	Mainly reflects adjustments following the finalization of the Company's income tax returns for last year and net of additional tax credits for this current year.
Inventories	(1.4)	Inventories were impacted by certain Aerospace segment program decelerations and push-outs, along with the purchase of certain raw materials for new military and commercial contracts, net of the impact of a lower US exchange rate to convert the net assets of self-sustaining US operations ($4.5 million).
Future income taxes (current assets)	(5.2)	Mainly reflects the future income tax impact of the recognition in the Company's balance sheets of the derivative financial instruments measured at fair value.
Other current assets	5.1	Reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.

Item	Change ($ millions)	Explanation
Property, plant and equipment, net	(18.5)	Due to: • Purchase of capital assets ($7.2 million); Net of: • Amortization expense ($15.7 million); • A lower US exchange rate used to convert the net assets of self-sustaining US operations ($10.0 million).
Finite-life intangible assets, net (includes a $4.0 million net backlog)	(0.3)	Due to: • Net increase in finite-life intangible assets ($2.1 million), representing capitalized development costs for Aerospace segment long-term contracts. Net of: • The amortization expense ($0.5 million) of the underlying value of the acquired net backlog and the lower US exchange rate used to convert the net assets of self-sustaining US operations ($1.3 million). • The amortization expense of software costs ($0.6 million).
Other assets	8.3	Reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	(25.6)	Mainly reflects an overall reduction of days in accounts payable and accrued liabilities. It also reflects the impact of the lower US exchange rate used to convert the US denominated accounts payable and accrued liabilities ($1.2 million).
Accounts payable – other	(14.0)	Mainly reflects the payment of property, plant and equipment received and accounted for in the last quarter of fiscal year 2009 and the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value. However, it includes $3.5 million of customers advances at December 31, 2009 quarter-end.
Income tax payable	(1.7)	Represents the payments made in the current fiscal year of the related income tax due from the prior fiscal year, net of tax instalments for the current fiscal year.
Long-term debt (including current portion)	(4.3)	Due to: • New capital lease obligations related to equipment ($7.6 million); • Non-interest bearing loan ($1.3 million) to support new eligible development and engineering costs related to new Aerospace segment programs; • Drawing of $5.0 million from the Company's Canadian Credit Facilities; • Interest accretion on non-interest bearing loans ($0.7 million);

Item	Change ($ millions)	Explanation
		Net of: • Capital repayment of long-term debt ($8.6 million including $5.0 million of the Company's Canadian credit facilities); and • A lower US exchange rate used to convert the net assets of self-sustaining US operations ($10.3 million).
Other long-term liabilities	(9.3)	Mainly reflects the variation in the Company's balance sheet of long-term derivative financial instruments measured at fair value.
Future income taxes (liabilities, long-term)	(7.7)	Mainly reflects the increase coming from timing differences between book and tax capital assets depreciation ($3.1 million) and the future income tax impact of the recognition in the Company's balance sheets of the derivative financial instruments measured at fair value.
Capital stock	(2.1)	Reflects the common shares issued under the Company's stock purchase and ownership plan ($0.2 million) net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($2.3 million).
Accumulated other comprehensive loss	6.5	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US operations, and the unrealized gains (losses), net of taxes, on the fair value of financial instruments designated as cash flow hedges.
Retained earnings	10.7	See consolidated statements of changes in shareholders' equity.

At December 31, 2009 and March 31, 2009, the Company's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio were as follows:

	December 31, 2009	March 31, 2009
Working capital ratio	2.83:1	1.94:1
Cash and cash equivalents	$30.2 million	$39.8 million
Long-term debt-to-equity ratio	0.37:1	0.42:1
Net debt-to-equity ratio(1)	0.25:1	0.24:1

(1): Defined as total long-term debt, including the current portion, less cash and cash equivalents, over shareholders' equity.

GOVERNMENT ASSISTANCE

During the three- and nine-month periods ended December 31, 2009, the Company recorded as a reduction of cost of sales an amount of $1.7 million and $4.3 million, and as a reduction of the related capital expenditures or development costs an amount of $1.1 million and $2.0 million for government assistance.

This government assistance includes mainly the investment tax credits and the discounted portion of the non-interest bearing loans (See Note 4 to the interim consolidated financial statements).
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OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $9.1 million as at December 31, 2009 ($9.2 million as at March 31, 2009), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At December 31, 2009, the Company also had purchase commitments totalling $4.1 million ($4.7 million to March 31, 2009), mainly for machinery and equipment, for which deposits of $0.9 million ($1.1 million to March 31, 2009) on machinery and equipment were made and are included in the Company's other receivables.

At December 31, 2009, the Company had entered into forward foreign exchange sales contracts to sell US$151.1 million at a weighted-average exchange rate of 1.1459 (US$162.8 million at a weighted-average exchange rate of 1.1396 as at March 31, 2009 and US$156.5 million at a weighted-average exchange rate of 1.1112 as at December 31, 2008) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between January 2010 and March 2014, with the majority maturing in calendar 2010 and 2011.

At December 31, 2009, the Company had also entered into forward foreign exchange sales contracts totalling US$11.3 million at a weighted-average exchange rate of 1.2397 maturing over the next four fiscal years (the majority of which over the next two fiscal years) to cover foreign exchange risk related to certain embedded derivatives.

IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS AND ECONOMIC SITUATION

In light of the financial and economic situation, the Company is carefully monitoring its strategy and risk management. Although results remain positive, this economic situation prompted Management to adopt a more conservative approach in its daily decisions.

In the nine-month period ended December 31, 2009, the Company's results were impacted by certain decelerations of production schedules and push-outs on commercial Aerospace segment programs as well as by the impact from softer conditions in industrial markets. While the Company's backlog remains strong, the prevailing business environment, and deferrals or cancellations of additional purchase orders, could have an adverse impact on upcoming results. The Company is striving to maintain a well-balanced portfolio between commercial and military Aerospace segment

sales, which should reduce risks associated with any potential slowdown. This being said, the impact of OEM announcements over recent quarters will continue to adversely impact the Aerospace segment commercial market while the military side of the Company's business remains solid. Furthermore, the recent strengthening of the Canadian dollar, when compared to the US currency, will put additional pressure on upcoming results. As already mentioned, and as highlighted in the Outlook section, Management maintains its focus on operational efficiencies and cost reduction initiatives to counterbalance negative currency fluctuations.

From a financial standpoint, the Company has a healthy balance sheet and is presently in compliance with all of its financial covenants and expects to do so for the next twelve months. Capital expenditure requirements are closely monitored by Management. The Company does not expect to have any liquidity issues, considering that the banks' Credit Facilities are extended by a syndicate of four Canadian banks, with acceptable credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields. These Credit Facilities will mature in October 2011.

In light of the above, the Company maintains its near-term outlook (see Outlook section below) and does not foresee any short-term elements that could jeopardize the going concern of its operations. That being said, and understanding that the Company does not have all the visibility it usually has in its markets, it will nevertheless continue to closely monitor the situation (see Risks and Uncertainties and Outlook sections below).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB is expected to continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. First reporting under IFRS is required for the Company's interim and annual financial statements beginning on April 1, 2011. The Company has developed a changeover plan to convert its Consolidated Financial Statements to IFRS, as described in its fiscal year 2009 Annual Report. The Company's IFRS project is progressing according to plan. The Company continues to monitor standards to be issued by the International Accounting Standards Board ("IASB"), but it is difficult to predict the IFRS that will be effective at the end of its first IFRS reporting period, as the IASB work plan anticipates the completion of several projects in calendar years 2010 and 2011. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the applicable IFRS at the conversion date are known.

The adoption of IFRS brings about several changes from Canadian GAAP. Following is the Company's non-exhaustive preliminary assessment of certain main differences that may have some impact on its consolidated financial statements:

Area	**IFRS requirement**
Provisions	Provisions with predictable settlement dates must be discounted. This could result in a reduction of provisions in accounts payable and accrued liabilities with a corresponding net after tax increase of Shareholders' equity.
Property, plant and equipment	Breakdown assets by major components based on useful life, for the calculation of amortization. The Company is already, in all material respects, in compliance with this requirement with no material impact on amortization cost.
Impairment of long-lived assets	Impairment tests must be based on discounted future cash flows. Under certain circumstances, previous impairment taken (other than goodwill), if any, is required to be reversed.
Leases	Certain operating leases may have to be accounted for as finance leases (capital leases).
Borrowing costs	Borrowing costs will be capitalized as part of the cost of certain inventories or development costs, and when certain criteria are respected.
Defined pension plan	The projected unit credit method must be applied for the measurement of pension plan obligations.
Pension plan – Past service costs	The past service costs must be fully recognized at the time they are vested. By virtue of the policy choice, actuarial gains or losses, as they occur, should be recognized on Other Comprehensive Income (OCI), with no impact to income.

In addition, IFRS 1 requires that first-time adopters select accounting policies that comply with each IFRS effective at the end of its first IFRS reporting period (March 31, 2012 for the Company), and apply those policies to all periods presented in its first IFRS financial statements.

However, IFRS 1 provides selected optional exemptions to the full retrospective application. The following are the Company's non-exhaustive, key IFRS 1 optional exemptions:

Optional exemptions	**Company's action items**
Business combinations	Review of certain business acquisition purchase price determination and allocation.
Long-lived assets	Determination of the value (cost or fair value) of its property, plant and equipment. The Company elected to record (and consequently keep) these long-lived assets at cost at transition date.
Defined pension plan	Recognition of the cumulative net actuarial gains and losses and transitional obligations at the transition date.
Cumulative translation adjustment (CTA)	Option to eliminate, or not, the CTA balance at the transition date.
Borrowing costs	Capitalization of borrowing costs as part of the capitalized development costs at the transition date.

At this time, the comprehensive impact of the changeover plan on the Company's future financial position and results of operations has not been finalized yet.

In addition, and as indicated above, the IASB currently contemplates a number of changes to existing IFRS. It is thus not possible to determine all IFRS that will be effective at transition date, nor the impact of the revised standards on the Company's consolidated financial statements. As the project progresses, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development, or in light of new information or other external factors that could arise from now until the changeover has been completed. Management expects to complete this assessment in time for parallel recording of financial information in accordance with IFRS beginning next fiscal year.

As part of the IFRS changeover plan, the Company is also preparing a preliminary IFRS consolidated financial statement format in accordance with IAS1, Presentation of Financial Statements, and is in the process of analyzing the contractual implications of the new policy choices on financing arrangements and similar obligations.

The Company also continues to provide training to key employees and monitor the impact of the transition on its business practices, systems and internal controls over financial reporting.

CONTROLS AND PROCEDURES

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with Canadian GAAP.

No changes that were made to our internal controls over financial reporting during the quarter and nine-month periods ended December 31, 2009, have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2009.

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- Impact of terrorist activity
- General economic conditions
- Military spending
- Foreign currency fluctuations
- Liquidity and access to capital resources
- Restrictive debt covenants
- Changing interest rates
- External business environment
- Warranty casualty claim losses
- Environmental matters
- Collective bargaining agreements
- Skilled labour

OUTLOOK

Despite significantly lower new orders for large commercial aircraft in 2009, manufacturers have confirmed 2010 production schedules and have not announced further build rate reductions. More importantly, backlogs remains healthy with approximately six years worth of production at current rates. Conditions remain difficult in the business jet market following order cancellations and deferrals, although some indicators are improving, such as better access to financing, reduced availability of used aircraft and stable utilization of certain fleet. The military aerospace market remains solid as evidenced by a new contract to manufacture the landing gear for the CH-47

Chinook helicopter and the ramp-up of the JSF program, although it has been announced that this ramp-up will occur at a slightly more moderate pace over the near term. While funding was increased for the US Department of Defense 2010 fiscal year budget and a further increase is being proposed for fiscal 2011, subsequent budget funding may be reduced as the US administration must address its overall deficit. For the Industrial market, the power generation industry, while still impacted over the short-term by the economic situation, appears to have bottomed out and the wind energy market still holds considerable potential over the mid-term.

Héroux-Devtek's funded (firm orders) backlog stood at $418 million as at December 31, 2009. Despite strong customer relationships and a backlog that nevertheless remains healthy, the Company is now anticipating a slight sales decrease for the current fiscal year ending March 31, 2010 compared to the previous year, considering the prevailing Industrial market environment and the current value of the Canadian currency.

A stronger Canadian dollar in recent months, and uncertainty surrounding its ongoing fluctuation versus the US currency, has prompted the Company to seek further productivity gains and streamline its cost base to remain globally competitive. Earlier in fiscal 2010, a cost reduction plan was implemented to reflect prevailing economic conditions. Time schedules were also reduced at some facilities, although the three main business units in Longueuil, Kitchener and Texas have not been significantly affected.

Fiscal 2010 capital expenditures are expected to be approximately $20 million, mostly for normal maintenance projects, but also certain investments related to the JSF program. After investing more than $100 million over the last three years, the Company plans to optimize these state-of-the-art investments in the coming quarters.

Héroux-Devtek still intends to pursue acquisition opportunities in its Aerospace segment that complement its existing core landing gear and aerostructure products, supported by a healthy balance sheet and Credit Facilities extending up to $125 million.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and the Board of Directors on February 4, 2010. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.